VILLAGE OF LANCASTER COMMUNITY DEVELOPMENT CORPORATION

Financial Statements and Supplementary Information
for the Years Ended May 31, 2018 and 2017
and Independent Auditors' Reports

Village of Lancaster
Community Development Corporation
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Years Ended May 31, 2018 and 2017

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of Village of Lancaster
Community Development Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the Village of Lancaster Community Development Corporation (the "Corporation"), which comprise the statements of financial position as of May 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of May 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the entity will continue as a going concern. As discussed in Note 10 to the financial statements, the entity has a mortgage and building loan that matured September 1, 2016 and a loan that was due on August 1, 2017. The mortgage and building loans require the Corporation to sell their property at 11 West Main Street, Lancaster, New York. As the Corporation sold their property, it has subsequently lost its main source of income. Further, the Corporation's net assets are in a deficit position. These factors raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 10. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the financial statements of the Corporation.

The Supplementary Information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards accepted in the United States of America. In our opinion, the supplementary information, as listed in the table of contents, is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2019 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Drescher & Malecki LLP

June 30, 2019

VILLAGE OF LANCASTER
COMMUNITY DEVELOPMENT CORPORATION
Statements of Financial Position
May 31, 2018 and 2017

ASSETS	2018	2017
Current assets:		
Cash and cash equivalents	$ 32,886	$ -
Restricted cash and cash equivalents	4,000	2,871
Accounts receivable, net	-	4,622
Prepaid expenses	7,760	8,822
Total current assets	44,646	16,315
Noncurrent assets:		
Note receivable	35,000	35,000
Land	265,268	265,268
Building	637,420	637,420
Building improvements	374,569	374,569
Less accumulated depreciation	(588,401)	(553,737)
Total non-current assets	723,856	758,520
Total assets	$ 768,502	$ 774,835
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 10,009	$ 2,710
Tenant security deposits	4,000	4,000
Accrued liabilities	16,271	18,229
Notes payable, current portion	817,579	817,579
Total current liabilities	847,859	842,518
Total liabilties	847,859	842,518
Net assets:		
Unrestricted	(79,357)	(67,683)
Total liabilities and net assets	$ 768,502	$ 774,835

The notes to the financial statements are an integral part to these statements.

VILLAGE OF LANCASTER
COMMUNITY DEVELOPMENT CORPORATION
Statement of Activities
Year Ended May 31, 2018

		Unrestricted
OPERATING REVENUES		
Rental income	$	154,006
Electric reimbursement		2,284
Other income		700
Total operating revenues		156,990
OPERATING EXPENSES		
Program services:		
Lancaster Village Partnership		125,717
Total program services		125,717
Supporting services:		
Management fees and general expenses		42,950
Total operating expenses		168,667
Operating loss		(11,677)
NON-OPERATING GAIN		
Interest income		3
Total non-operating gain		3
Change in net assets		(11,674)
Net assets—beginning of year		(67,683)
Net assets—end of year	$	(79,357)

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LANCASTER
COMMUNITY DEVELOPMENT CORPORATION
Statement of Activities
Year Ended May 31, 2017

		Unrestricted
OPERATING REVENUES		
Rental income	$	127,253
Electric reimbursement		3,215
Other income		700
Foregiveness of current year interest		21,684
Total operating revenues		152,852
OPERATING EXPENSES		
Program services:		
Lancaster Village Partnership		131,982
Total program services		131,982
Supporting services:		
Management fees and general expenses		43,142
Total operating expenses		175,124
Operating loss		(22,272)
NON-OPERATING (LOSS)		
(Loss) on sale of land		(1,392)
Total non-operating (loss)		(1,392)
Change in net assets		(23,664)
Net assets—beginning of year		(44,019)
Net assets—end of year	$	(67,683)

The notes to the financial statements are an integral part of this statement.

VILLAGE OF LANCASTER
COMMUNITY DEVELOPMENT CORPORATION
Statements of Cash Flows
Years Ended May 31, 2018 and 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	2018	2017
Operating (loss)	$ (11,677)	$ (22,272)
Adjustments to reconcile operating loss to net cash used for operating activities:		
Depreciation	34,664	34,207
Changes in assets and liabilities affecting cash flow:		
Decrease in accounts receivable, net	4,622	3,534
Decrease (increase) in prepaid expenses	1,062	(6,768)
Increase in accounts payable	7,299	777
(Decrease) in accrued liabilities	(1,958)	(8,466)
Increase in tenant security deposits	-	1,200
Total adjustments	45,689	24,484
Net cash provided by operating activities	34,012	2,212
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from sale of land	-	25,008
Net cash provided by financing activities	-	25,008
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in building improvements	-	(16,803)
Interest earnings	3	-
Net cash provided by (used for) investing activities	3	(16,803)
Net increase in cash	34,015	10,417
Cash (cash overdraft) - beginning of year	2,871	(7,546)
Cash - end of year	$ 36,886	$ 2,871
NON-CASH FINANCING ACTIVITIES		
Cash paid for interest	$ 24,156	$ 20,812

The notes to the financial statements are an integral part of these statements.

1. DESCRIPTION OF ORGANIZATION

The Village of Lancaster Community Development Corporation (the "Corporation") was incorporated under Section 402 of the Not-for-Profit Corporation Law. The purposes for which the Corporation was formed are to achieve the following lawful public and quasi-public objectives:

- Developing incentives to promote, maintain, and expand employment opportunities in the Village of Lancaster, New York.
- Rehabilitating and developing residential and commercial property within the Village of Lancaster, New York.
- Sponsoring and promoting events and activities in the Village that enhance and improve the quality of life for the residents of the Village of Lancaster, New York.
- Providing financial assistance to companies and individuals considering residence in the Village of Lancaster, New York.
- Providing technical, administrative and other assistance to potential businesses in the Village of Lancaster, New York.

The Corporation is not considered a component unit of the Village. The Corporation is a separate entity and operates independently of the Village.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Corporation prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America ("U.S. GAAP") for not-for-profit organizations on the accrual basis of accounting. The significant accounting and reporting policies used by the Corporation are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis of Accounting

The accounts of the Corporation are maintained on the accrual basis of accounting.

Use of Estimates—The Corporation's preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that the estimates and assumptions are reasonable in the circumstances; however the actual results could differ from those estimates.

Net assets—The classification of the Corporation's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes net assets: permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

- *Permanently restricted net assets*—Contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation. The Corporation reports no permanently restricted net assets at May 31, 2018.

- *Temporarily restricted net* assets—Contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations. The Corporation reports no temporarily restricted net assets at May 31, 2018.

- *Unrestricted net assets*—Neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Cash and Cash Equivalents—The Corporation maintains cash in bank deposit accounts which are federally insured. The Corporation deposits are held at quality institutions and have not experienced any losses in such accounts. The Corporation believes it is not exposed to any significant credit risk on cash.

Restricted Cash and Cash Equivalents—Restricted cash and cash equivalents represent amounts collected and held by the Corporation as security deposits.

Accounts Receivable, net—Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts. Management periodically evaluates the allowance for doubtful accounts and will make adjustments as necessary. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. Accounts receivable are considered uncollectible if any portion of the receivable balance is outstanding for more than 90 days.

Prepaid Expenses—Prepaid expenses consist of certain payments that reflect costs applicable to future accounting periods. The cost of prepaid items is recorded as expenses/expenditures when consumed rather than when purchased.

Land, Building, and Building Improvements—Land, building, and building improvements are reported in the statements of financial position at cost, if purchased, and at fair value at the date of donation, if donated. All land and buildings are capitalized. Repairs and maintenance that do not significantly increase the useful life of the asset are expensed as incurred. Depreciation of buildings and building improvements is computed using the straight-line method over the estimated useful lives of the assets as presented below:

Building	40 years
Building improvements	20 years

Tax Status—The Corporation is incorporated as exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purposes (unless that income is otherwise excluded by the IRC). All applicable tax forms for the Corporation have been filed and accepted by the Internal Revenue Service through the year ended May 31, 2017. The tax years ended May 31, 2018, 2017, and 2016 are still open to audit for federal purposes. Contributions to the Corporation are tax deductible to donors under Section 170 of the Internal Revenue Code. The Corporation is not classified as a private foundation.

Non-operating activities—Certain investment income earned, gains and losses on sale of capital assets, and forgiveness of debt are considered non-operating activities in the accompanying Statements of Activities.

Management Fees—Management fees are paid by the Corporation for accounting and administrative services. Management fees totaled $8,300 and $6,750 for the years ended May 31, 2018 and 2017, respectively.

Future Impacts of Accounting Pronouncements—The Corporation has not completed the process of evaluating the impact that will result from adopting Financial Accounting Standards Board ("FASB") Accounting Standards Update No. 2016-14—*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, effective for the year ending May 31, 2019. The Standard is intended to improve net asset classification requirements and the information presented in the financial statements and notes about an entity's liquidity, financial performance, and cash flows.

3. CASH AND CASH EQUIVALENTS

The Corporation follows New York State investment guidelines. All deposits are carried at fair value.

	May 31, 2018		May 31, 2017	
	Bank Balance	Carrying Balance	Bank Balance	Carrying Balance
Petty cash (uncollateralized)	$ -	$ 61	$ -	$ 200
Deposits	43,938	36,825	7,031	2,671
Total	$ 43,938	$ 36,886	$ 7,031	$ 2,871

Restricted Cash—Restricted cash is to be restricted for tenant security deposits totaling $4,000 at May 31, 2018 and 2017; however, the Corporation did not have sufficient cash to support the security deposits at May 31, 2017.

Custodial Credit Risk—Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. As of May 31, 2018, the Corporation's deposits were fully insured by the FDIC.

Interest Rate Risk—The Corporation had no investments at May 31, 2018 and May 31, 2017.

4. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following components at May 31, 2018 and 2017:

	2018	2017
Tenant - rents	$ 2,652	$ 5,252
Tenant - electric	-	322
Less: Allowance for doubtful accounts	(2,652)	(952)
Total accounts receivable (net)	$ -	$ 4,622

Allowance for doubtful accounts is established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability to collect certain receivables.

5. NOTE RECEIVABLE

The Corporation acquired a note receivable, dated April 1, 2010, due from Sixteen Central Avenue, Inc. The note is for a commercial mortgage, has an annual interest rate of 2.0% and is due and payable on May 1, 2035. For each of the years ended May 31, 2018 and 2017, Sixteen Central Avenue, Inc. made annual interest payments of $700. The balance outstanding on the note totaled $35,000 as of May 31, 2018 and 2017.

6. PROPERTY AND EQUIPMENT

A summary of the Corporation's property and equipment for the year end May 31, 2018 follows:

	Balance 6/1/2017	Additions	Deletions	Balance 5/31/2018
Capital assets, not being depreciated:				
Land	$ 265,268	$ -	$ -	$ 265,268
Total capital assets, not being depreciated	265,268	-	-	265,268
Capital assets, being depreciated:				
Building	637,420	-	-	637,420
Building improvements	374,569	-	-	374,569
Total capital assets, being depreciated	1,011,989	-	-	1,011,989
Less accumulated depreciation	(553,737)	(34,664)	-	(588,401)
Total capital assets, being depreciated, net	458,252	(34,664)	-	423,588
Capital assets, net	$ 723,520	$ (34,664)	$ -	$ 688,856

A summary of the Corporation's property and equipment for the year end May 31, 2017 follows:

	Balance 6/1/2016	Additions	Deletions	Balance 5/31/2017
Capital assets, not being depreciated:				
Land	$ 291,668	$ -	$ 26,400	$ 265,268
Total capital assets, not being depreciated	291,668	-	26,400	265,268
Capital assets, being depreciated:				
Building	637,420	-	-	637,420
Building improvements	357,766	16,803	-	374,569
Total capital assets, being depreciated	995,186	16,803	-	1,011,989
Less accumulated depreciation	(519,530)	(34,207)	-	(553,737)
Total capital assets, being depreciated, net	475,656	(17,404)	-	458,252
Capital assets, net	$ 767,324	$ (17,404)	$ 26,400	$ 723,520

7. NOTES PAYABLE

Loans Outstanding—activity on the Corporation's loans is as follows:

- *M&T Consolidated note*—The Corporation has a mortgage note with M&T Bank, the M&T consolidated note. The note is secured by real property at 11 West Main Street, Lancaster, New York. The note included a fixed interest rate of 4.5% and an original maturity of January 10, 2014. The note required eleven installment payments of $4,573 and one final installment on the January 10, 2014. On January 10, 2014, the note was amended extending the expiration date until January 10, 2015. The note was further amended requiring interest only payments beginning on January 10, 2015 with a maturity date of January 10, 2016. On January 10, 2016, the note was amended extending the maturity date until September 1, 2016. The Corporation was unable to repay the mortgage balance. On January 8, 2018, M&T has called the mortgage loan. Subsequent to year end, on October 29, 2018, the Corporation closed on the sale of their property, and subsequently paid the outstanding mortgage loan balance.

- *M&T building loan*—On September 1, 2015 the Corporation entered into a building loan agreement with M&T Bank for $125,000 with a maturity date of September 1, 2016. This is an interest only loan, at 6.5% interest annually. The loan is secured by the assignment of rents. The Corporation was unable to repay the building loan. On January 8, 2018, M&T has called the building loan. Subsequent to year end, on October 29, 2018, the Corporation closed on the sale of their property, and subsequently paid the outstanding building loan balance.

- *Buffalo Regional Development loan*—During 1999, the Corporation participated in a loan from the Lancaster Industrial Development Agency and the Buffalo and Erie County Regional Development Corporation for $300,000. The loan carries an annual interest rate of 4% and matured on August 1, 2010, and is now past due. The loan is collateralized by a mortgage (collateral security) and assignment of rents and leases. The Corporation makes payments of interest only until maturity. On August 1, 2015, the loan was amended and the Corporation was relieved $150,000 of the outstanding debt and the maturity date was extended to August 1, 2018.

The loan amendment provides the Corporation with an automatic twelve month extension of the maturity date. During the year ended May 31, 2018, the Corporation made interest only payments on the loan. Subsequent to year end, on October 29, 2018, the Corporation closed on the sale of their property, and subsequently paid the outstanding development loan balance.

A summary of additions and payments of the Corporation's outstanding loans for the year ended May 31, 2018 follows:

	Balance 6/1/2017	Additions	Payments	Balance 5/31/2018
M&T consolidated note	$ 542,579	$ -	$ -	$ 542,579
Buffalo Regional Development	150,000	-	-	150,000
M&T building loan	125,000	-	-	125,000
Total loans outstanding	$ 817,579	$ -	$ -	$ 817,579

A summary of additions and payments of the Corporation's outstanding loans for the year ended May 31, 2017 follows:

	Balance 6/1/2016	Additions	Payments	Balance 5/31/2017
M&T consolidated note	$ 542,579	$ -	$ -	$ 542,579
Buffalo Regional Development	150,000	-	-	150,000
M&T building loan	125,000	-	-	125,000
Total loans outstanding	$ 817,579	$ -	$ -	$ 817,579

8. CONTINGENCIES

The Corporation is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Corporation purchases liability insurance to cover such potential risks. There have not been any significant changes in any type of insurance coverage from the prior year, nor have there been any settlements which have exceeded insurance coverage in the past fiscal year.

The Corporation is involved in litigation arising in the ordinary course of its operations. Management believes that its ultimate liability, if any, in connection with these matters will not have a material effect on its financial condition or results of operations.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 30, 2019, which is the date the financial statements are available for issuance, and have determined there are no subsequent events, except those items discussed below, that require disclosure under generally accepted accounting principles.

- On October 29, 2018, the Corporation has closed on the sale of 11 West Main Street, Lancaster, New York, for a net amount of $919,674. This net total is comprised of the selling price of $925,000, plus $390 of taxes assumed by the purchaser, less credits of $5,716. Proceeds were used to repay loans and mortgages totaling $883,907, recording fees, $8,385, and closing costs, $27,002, resulting in a net gain of $380.

- On October 29, 2018, the Corporation repaid the outstanding balance of the M&T mortgage note. Total payment was $593,363 which includes interest of $35,677, attorney fees of $13,819 and $1,288 in per diem charges.

- On October 29, 2018, the Corporation repaid the outstanding balance of the Buffalo Regional Development loan. Total payment was $151,279 which includes interest of $1,279.

- On October 29, 2018, the Corporation repaid the outstanding balance of the M&T building loan. Total payment was $139,264 which includes interest of $14,264.

10. GOING CONCERN

The Corporation has a mortgage note and building loan with M&T Bank with $542,599 and $125,000 outstanding at May 31, 2018, respectively. The mortgage note and the building loan matured September 1, 2016. As of October 29, 2018, the Corporation has completed the sale of 11 West Main Street, and has repaid all loan and mortgage loans outstanding. This disposition has resulted in the Corporation losing its primary source of revenue as they no longer have the ability to collect monthly rental payments from tenants. Management is considering future revenue sources to continue operations.

Accordingly, there is substantial doubt about the entity's ability to continue as a going concern within one year of the issuance of the financial statements.

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Village of Lancaster
Community Development Corporation
Schedule of Functional Expenses
Year Ended May 31, 2018 (with comparative total for 2017)

	Program Services	Supporting Services		
	LVP Complex	Management & General	Total 2018	Total 2017
Heating and cooling repair	$ 53	$ -	$ 53	$ 1,672
Plumbing repair	750	-	750	2,065
Janitorial	1,469	-	1,469	954
Building maintenance	18,880	-	18,880	26,932
Depreciation	34,664	-	34,664	34,207
Legal fees	-	5,450	5,450	9,694
Property taxes	2,322	-	2,322	2,348
Natural gas	1,511	-	1,511	831
Electric	23,173	-	23,173	21,454
Water	4,965	-	4,965	4,768
Bank fees	-	394	394	675
Liability insurance	-	16,965	16,965	13,819
Loan interest	-	6,000	6,000	6,500
Mortgage interest	32,993	-	32,993	32,541
Office supplies	292	-	292	-
Computer repairs	-	263	263	554
Dues and subscriptions	-	150	150	150
Accounting	-	5,000	5,000	5,000
Management fees	-	8,300	8,300	6,750
Marketing expenses	-	364	364	-
Other fees and expenses	4,645	64	4,709	4,210
TOTAL	$ 125,717	$ 42,950	$ 168,667	$ 175,124

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Members of the Village of Lancaster
Community Development Corporation:

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Village of Lancaster Community Development Corporation (the "Corporation"), which comprise the statement of financial position as of May 31, 2018 and 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2019, which report includes an emphasis of matter regarding the entity's ability to continue as a going concern.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2018-001 and 2018-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and response as item 2018-003.

The Corporation's Response to Findings

The Corporation's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Corporation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

June 30, 2019

We consider the deficiencies presented below to be material weaknesses in internal control.

Finding 2018-001: Accounting Policies and Procedures Manual

Criteria: Sound internal controls include formal policies and procedures that should be designed and implemented to outline the various accounting cycles.

Condition and Context: There are no formal policies and procedures surrounding cash, accounts receivable or accounts payable. As such, bank reconciliations are not reconciled to the book balance, lack review, and the individual responsible for depositing cash also has the responsibility to prepare and post entries and reconcile bank accounts. The Corporation's receivable accounts include many old balances that were deemed to be uncollectible and had been written off to the allowance account in both, previous and current year ends. The accounts receivable listing is not routinely reconciled to the general ledger as there was inadequate support of the accounts receivable balance as of the balance sheet date. The allowance for doubtful accounts at year end remained at the same level as the previous year. Errors in account classifications were made in the cash disbursements process which caused numerous reclassification entries to be made throughout the year.

Cause: The Corporation does not have formal accounting policies and procedures relating to internal controls. The Corporation does not routinely reconcile book balances to applicable reports which prevents differences from being investigated.

Effect or Potential Effect: The lack of internal controls that are designed and implemented specifically for accounting cycles increases the risk of fraud, the risk of financial statement misstatements, and the risk of misappropriation of assets.

Audit Recommendation: We recommend that the Corporation adopt the following procedures: monthly reconciliations of all bank accounts, reconciliations are prepared by using the bank balance and balance per the general ledger, and a policy to write-off outstanding checks; continuous review of accounts receivable for old accounts, formal periodic review of the account receivable aged trial balance, monthly reviews of accounts receivable listings to the general ledger and removing balances of items previously wrote off; monthly review of accounts payable listing for accuracy and to remove any balances previously paid or aged over 90-days that have been considered to not be a liability. The Corporation should establish a cutoff period which should be strictly adhered to by the individual responsible for accruing receivables and payables.

Views of responsible officials and planned corrective actions: We acknowledge the independent auditor's findings, and will endeavor to create, and adapt, a formal manual for all accounting policies and procedures.

Finding 2018-002: Generally Accepted Accounting Principles ("GAAP")

Criteria: Internal controls over financial reporting should be designed and implemented to detect and prevent potential misstatements.

Condition and Context: The Corporation has an undue reliance on its independent auditors to provide proposed audit journal entries to be in compliance with GAAP.

Cause: The Corporation does not have formal controls over financial reporting.

Effect or Potential Effect: The compilation of the financial statements required numerous adjusting journal entries, including certain entries that had a material effect on the Corporation's financial statements relating to the year ended May 31, 2018.

Audit Recommendation: We recommend that personnel responsible for accounting and financial reporting improve and/or acquire different skills concerning the preparation of balances recorded in the general ledger. This training should lead to personnel who are more efficient, effective, and communicative with regard to accounting and financial matters. The Corporation should seek out appropriate education and resources to gain an understanding of GAAP reporting requirements

Views of responsible officials and planned corrective actions: The Corporation is made up a group of community-minded volunteers. None of the members have accounting degrees. Going forward, we will – within the constraints of our budget – seek more professional accounting advice and/or education where warranted.

We consider the item presented below to be instances of noncompliance and other matters.

Finding 2018-003: Compliance with New York State Authorities Budget Office

Criteria: As a local development corporation, the Village of Lancaster Community Development Corporation ("the Corporation") is subject to various reporting requirements as established by the New York State Public Authorities Law. The New York Authorities Budget Office monitors the Corporation's compliance with the various laws and regulations.

The following reports are to be submitted annually:

- Budget Report
- Annual Report
- Procurement Report
- Investment Report
- Certified Financial Audit

The purpose of these reports is to be accountable to the public and provide transparency. Failure to comply with the above requirements may result in censure.

Condition and Context: The Corporation failed to comply with the compliance requirements of the New York State Authorities Budget Office.

Cause: Formal accounting policies and procedures are non-existent.

Effect or Potential Effect: Failure to comply with compliance requirements can result in the Authorities Budget Office taking action, access to records, books and financial documents and/or recommending the removal of the board of directors.

Audit Recommendation: We recommend that the Corporation develop controls to ensure that the necessary reports are completed and filed annually in timely manner to comply with all state operating and reporting requirements.

Views of responsible officials and planned corrective actions: Management of the Corporation is aware of this requirement and has put effort in meeting this compliance requirement, however, to date not all records are available or have been submitted.

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